

Positive reform momentum is yet to materialize

General Information



GDP	USD341.952bn (World ranking 34, World Bank 2014)
Population	5.64m (World ranking 112, World Bank 2014)
Form of state	Constitutional Monarchy
Head of government	Lars Løkke Rasmussen (Liberal Party Venstre)
Next elections	2019, legislative



Strengths

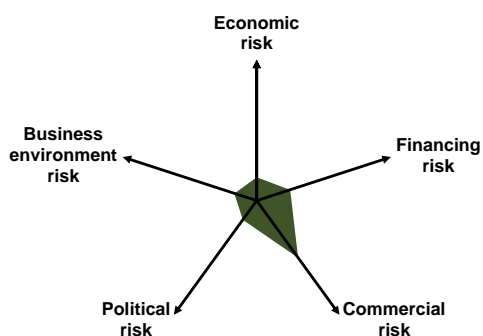
- Strong banking sector
- Strong business environment
- Diversified export sector
- Healthy public finances
- High institutional effectiveness
- Modest government debt burden

Weaknesses

- Excessive household debt
- Small and open economy
- Loss of competitiveness, namely due to high tax burden

Country Rating

AA1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Germany	15% 1	23% Germany
Sweden	11% 2	13% Sweden
United Kingdom	7% 3	8% Netherlands
Norway	6% 4	6% China
United States	6% 5	5% Norway

By product (% of total)

Exports	Rank	Imports
Pharmaceuticals	13% 1	5% Refined Petroleum Products
Meat	6% 2	5% Pharmaceuticals
Electrical Equipment	5% 3	5% Miscellaneous Hardware
Engines	5% 4	5% N.E.S. Products
Miscellaneous Hardware	4% 5	4% Plastic Articles

Source: Chelem (2014)

Economic Overview

Moderate economic growth in 2016 and 2017

Denmark's economy is back on track, although to a less dynamic extent than other Scandinavian neighbors such as Sweden or Norway. In Q1 and Q2 2016, the Danish economy expanded by +0.7% q/q and +0.5% q/q respectively, thanks to positive net exports (+0.2pp in Q1 and +0.8pp in Q2) and supportive public spending. Consumer spending has been dynamic in Q1 (+0.5% q/q) before slowing down in Q2 (+0.2% q/q). However, the fall in the unemployment rate (6.2% in Q2), the return to positive growth in real wages (annual average of 1%), the low interest rates and rising house prices (average annual rise of above +4%) should support consumer spending going forward. Capacity utilization rate rose above its historical average in Q3 2016 (at 81%), which suggests a pick-up in firms appetite for investment.

Risks still stem from the high debt burden of non-financial companies (240% of total income for net NFC debt) and falling profitability. Turnover growth is recovering and a pick-up in inflation should support firms' pricing power. Business insolvencies are expected to fall by -7% in 2017.

Fiscal stimulus in the pipeline: DK2025

Healthy public finances, especially compared to the rest of the EU, provide room for fiscal stimulus. Prime Minister Lars Lokke Rasmussen has initiated negotiations within his ruling coalition to adopt a 10-year economic plan that should boost the economy up until 2025. The Liberal party proposes to (i) cut income tax and the top marginal tax rate to 10% from 15%, (ii) increase public spending by 0.5% per year to DKK22bn in 2025, with a focus on care for the elderly, education and security; (iii) raise the retirement age to 67.5 years in 2025, up from 67, and to 68 years in 2030.

The coalition partner, the Conservative's People Party, pushes for more spending on pensions. Should these negotiations be successful, the plan could boost the economy by DKK65bn (3.2% of GDP). Failure to come to a compromise could lead to a break-up of the ruling coalition and elections by the end of 2016.

Brexit remains a downside risk

The UK plays an important role for all four Nordic countries as it stands among the TOP 5 export markets for the region. Norway and Denmark are exposed more than others. The UK is the first export market for Norway (21% of total exports) mainly through the oil market. The British economy is the 3rd biggest destination for Danish exports (7% of total exports).

GBP depreciation could translate into lower export growth for Denmark. Brexit's overall impact could reach from -DKK2.7bn to -DKK3.5bn depending on the UK's trade relationship with the EU post exit (see Figure 3). Subdued demand in the UK due to uncertainty along with the currency's depreciation can impact the most exposed sectors: agri-food, energy, and machinery.

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Figure 1 - Economic forecasts

Denmark	share	2014	2015	2016	2017	
GDP	100%	1.3	1.0	1.1	1.5	
Consumer Spending	46%	0.9	2.5	1.5	1.6	
Public Spending	26%	0.2	-0.7	0.7	0.7	
Investment	20%	3.4	1.1	1.3	1.7	
Stocks	*	2%	0.1	-0.4	-0.1	0.1
Exports	55%	3.1	0.3	0.6	1.3	
Imports	48%	3.3	0.0	0.4	1.2	
Net exports	*	6%	0.1	0.2	0.1	0.1
Current account	**	150	140	142	0	
Current account (% of GDP)		7.7	7.0	7.1	6.5	
Employment		0.7	1.5	1.7	0.8	
Unemployment rate		6.8	6.3	6.2	6.1	
Wages		3.0	3.3	4.5	2.5	
Inflation		0.4	0.5	0.4	1.2	
General government balance	**	29	-34	-33	-34	
General government balance (% of GDP)		1.5	-1.7	-1.5	-1.7	
Public debt (% of GDP)		44.8	40.2	38.3	35.6	
Nominal GDP	**	1943	1985	2 006	2 057	

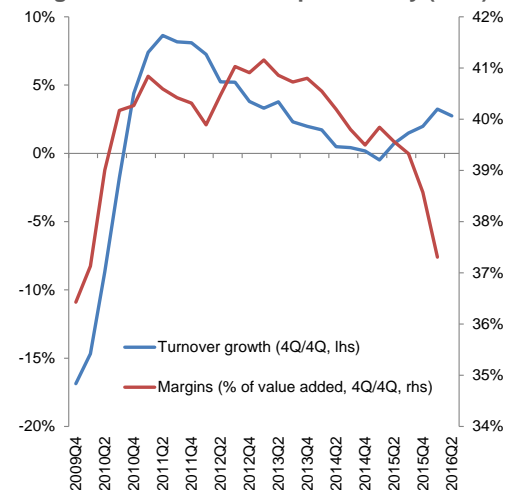
Change over the period, unless otherwise indicated:

* contribution to GDP growth

** BKK bn

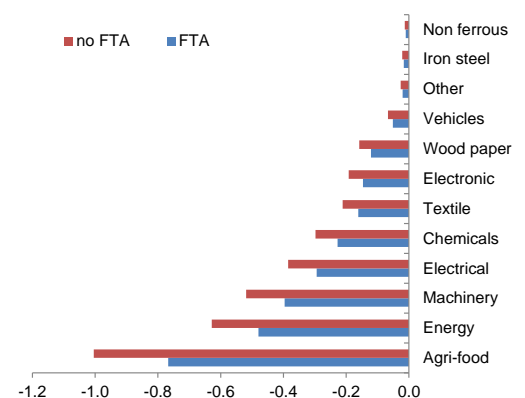
Sources: National sources, Euler Hermes forecasts

Figure 2 – Turnover and profitability (NFC)



Sources: Eurostat, Euler Hermes

Figure 3 – Brexit: estimated export loss 2017-19 (DKKbn)



Sources: Chelem, Euler Hermes

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